

NEWS FROM

KHEAA–Alabama

100 North Union Street, Suite 390, Montgomery, AL 36104-3762

Phone: (334) 265-9720 Toll-free: (800) 721-9720

Fax: (334) 265-9750

Financial Aid Tip of the Month, December 2008

Things to know about student loans

One fact of life for most college students is that they will have to take out student loans to help pay for their college education. Many times their parents will have to take out loans to help them. KHEAA–Alabama suggests students and parents should take time to learn more about student loans and how to save money on them.

The Federal Family Education Loan Program (FFELP) includes Federal Stafford Loans and Federal PLUS Loans. Stafford Loans are available to undergraduate, graduate and professional students. PLUS Loans are available to the parents of undergraduate students as well as to graduate and professional students who have received all the Stafford Loan funds for which they're eligible.

FFELP loans have a lender and a guarantor. On Stafford Loans, the lender can charge an origination fee, similar to the points on a home mortgage, of up to 1 percent. The guarantor must charge a federal default fee of 1 percent. Those fees are deducted before the loan funds are sent to the student's school. However, not all FFELP lenders charge the same origination fee, and some lenders will pay the federal default fee on behalf of borrowers. To be smart shoppers, students and parents should find out what fees each lender charges. The lower the fees, the more money the student gets to pay for school.

On PLUS Loans, lenders are required to charge a 3 percent origination fee, while guarantors must charge the 1 percent default fee. Some lenders will pay the default fee for borrowers.

Students and parents should also see what benefits lenders offer when they're paying back Stafford or PLUS Loans. Many FFELP lenders offer interest rate reductions for automatic withdrawals and reductions to the principal for a history of on-time payments.

In addition to federal student loans, some lenders offer private student loans. These are called "alternative loans." As with any private loan, students owe it to themselves to do some comparison shopping before borrowing.

For more information about financial aid and college planning, write to KHEAA–Alabama, 100 North Union Street, Suite 390, Montgomery, AL 36104-3761; or call 334-265-9720, toll free (800) 721-9720.